

Message Text

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ACTION TRSE-00

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PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8855

INFO AMEMBASSY JAKARTA PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLASS 1/28/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE (TA) GRANT AND LOAN
FOR KARANGSAMBUNG MULTI-PURPOSE PROJECT (INDONESIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$100,000 GRANT AND \$2.9
MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
REPUBLIC OF INDONESIA TO FINANCE FOREX COST OF CONSULTING
SERVICES, TRAINING AND EQUIPMENT TO CONDUCT A FEASIBILITY
STUDY, PREPARE DETAILED ENGINEERING DESIGN, SPECIFICATIONS
AND TENDER DOCS FOR PROPOSED KARANGSAMBUNG MULTI-PURPOSE
PROJECT IN SOUTH CENTRAL JAVA. PROPOSED PROJECT WOULD
INCLUDE MULTI-PURPOSE DAM AND STORAGE RESERVOIR, HYDRO-
PLANT AND ASSOCIATED SUB-STATION AND TRANSMISSION LINES,
IRRIGATION, DRAINAGE AND FLOOD CONTROL FACILITIES; RELATED
INFRASTRUCTURE. USADB RECOMMENDS FAVORABLE NAC ACTION.
END SUMMARY.

1. ADB DOC . R98-75 WITH ATTACHMENTS DESCRIBING PROPOSED
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LOAN AND GRANT POUCHED ADDRESSEES OCT. 21. BOARD CON-

SIDERATION SCHEDULED 6 NOV.

2. ADB MANAGEMENT PROPOSING \$100,000 GRANT AND \$2.9 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO REPUBLIC OF INDONESIA. PROCEEDS WILL FINANCE FOREX COST OF CONSULTING SERVICES TO DETERMIN FEASIBILITY OF CONSTRUCTING A 50 METER HIGH DAM ON THE LUKULO RIVER ABOVE KEBUMEN TWON; ASSOCIATED HYDRO-POWER, IRRIGATION AND FLOOD CONTROL FACILITIES; PREPARING DETAILED DESIGNS, SPECS AND TENDER DOCS. PROPOSED TERMS ARE 10 YEAR AMORTIZATION INCLUDING 2 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER, DIRECTORATE-GENERAL OF WATER RESOURCES DEVELOPMENT (DGWRD) OF MINISTRY OF PUBLIC WORKS AND ELECTRIC POWER TO BE EXECUTING AGENCY.

3. ADB PROPOSES TO FINANCE TA TO CONDUCT A FEASIBILITY STUDY, AND IF WARRANTED, COMPLETE IN TWO PHASES ENGINEERING DESIGN, SPECIFICATIONS AND TENDER DOCS FOR THE PROPOSED KARANGSAMBUNG MULTI-PURPOSE PROJECT. GOVT PROGRAMS IN REPELITA II AND III INCLUDE PLANS FOR SUBSTANTIAL INVESTMENTS IN AGRICULTURE AND ELECTRIC POWER SECTORS IN CENTRAL JAVA, REGION WHICH HAS LAGGED BEHIND REST OF JAVA IN DEVELOPMENT, INVESTMENT PROGRAMS COMTEMPLETE DEVELOPMENT OF WATER RESOURCES IN SOUTH KEDU REGION OF CENTRAL JAVA. ADB-FINANCED SEMPOR DAM AND IRRIGATION PROJECT WAS FIRST STEP IN THAT PROGRAM. PROPOSED KARANGSAMBUNG MULTI-PURPOSE PROJECT WOULD BE THE SECOND IN AN ADJOINING AREA.

4. 1975 ADB PROJECT IDENTIFICATION MISSION CONFIRMED GOVT REQUEST FOR ASSISTANCE IN CONDUCTING FEASIBILITY STUDIES FOR PORPOSED PROJECT WHICH BANK CONSIDERS MERITS TA THAT GOVT HAS REQUESTED.

5. AGRICULTURE ACCOUNTS FOR 40 PER CENT OF GDP, 60 PER CENT OF EMPLOYMENT AND 40 PER CENT (TIMBER, RUBBER, PALM OIL) TOTAL EXPORTS. RICE IS STAPLE DIET, WITH ANNUAL PRODUCTION REACHING 15.4 MILLION TONS 1974/75. HOWEVER, GOVT SEEKING SELF-SUFFICIENCY IN RICE PRODUCTION WHICH SCHEDULED TO BE ATTAINED 1978/79 WHEN PRODUCTION LIMITED OFFICIAL USE

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ESTIMATED REACH 18.5 MILLION TONS.

6. KEY FACTOR IN INCREASED RICE PRODUCTION IS UNIT YIELD INCREASES. GOVERNMENT'S PROGRAMS, BIMAS/INMAS, WHICH PROVIDE SUBSIDIZED CREDIT AND INPUTS, INCREASED YIELDS 50 PERCENT BY EXPANDING PROGRAMS TO IRRIGATED AREAS. TO INCREASE YIELDS FURTHER BETTER WATER CONTROL AND EXTENSION OF IRRIGATED AREAS NEEDED. THUS

CONTINUED IRRIGATION DEVELOPMENT IS MAJOR FEATURE OF INDONESIA'S AG STRATEGY DURING REPELITA II, IN WHICH 9.5 PER CENT (\$1.2 BILLION) OF THE FIVE-YEAR DEVELOPMENT BUDGET HAS BEEN EARMARKED FOR IMPROVING WATER CONTROL. BESIDES RICE SELF-SUFFICIENCY, REPELITA II AG SECTOR GOALS INCLUDE REDUCING RURAL UNEMPLOYMENT, INCREASING PRODUCTIVITY OF FARMERS AND FISHERMEN AND INCREASED AG EXPORTS.

7. ALSO DURING REPELITA II, GOVT TARGET IS TO AUGMENT STATE ELECTRICITY ENTERPRISE (PLN) INSTALLED CAPACITY IN EFFORT TO INCREASE VERY LOW PER CAPITA ENERGY CONSUMPTION NOW ONLY 20 KWH. IN CENTRAL JAVA, PLAN HAS ONLY 93 MW INSTALLED CAPACITY. SHORTFALL HAS LED MANY ENTERPRISES PROVIDE OWN DIESEL SETS. RECENT DEMAND FORECAST FOR CENTRAL JAVA PROJECTED INCREASED ENERGY DEMAND AT 12 PER CENT PER YEAR.

8. CLIMATE, SOILS, ROAD AND RAIL ACCESS ALL FAVOR INTENSIFIED CROPPING PATTERNS IN PROPOSED SERVICE AREA, BUT SEASONAL WATER SHORTAGES ATTRIBUTED TO MARGINAL PERFORMANCE EXISTING RUDIMENTARY IRRIGATION SYSTEMS NOW CURTAIL AG PRODUCTION. ALSO ABOUT 5000 HA. IN SERVICE AREA SUBJECT TO RECURRENT FLOODING; TRACTS OF LOW LYING LANDS IN SOUTH KEDU PLAIN IMPROPERLY DRAINED. DEVELOPMENT OF DAM AND HYDROPOWER STATION AT KARANG-SAMBUNG AND REHABILITATING AND PROVIDING NEW IRRIGATION/DRAINAGE FACILITIES WOULD HELP MEET REGION'S NEEDS.

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INFO OCT-01 ISO-00 EA-07 NEA-10 IO-10 L-03 H-02 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

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9. SCOPE AND CONFIGURATION OF PROPOSED MULTI-PURPOSE PROJECT WOULD BE DETERMINED BY TA FEASIBILITY STUDY WHICH TENTATIVELY WOULD INCLUDE ESTIMATED 50 METER HIGH DAM AND RESERVOIR: 10 MW POWER PLANT, SUBSTATION AND TRANSMISSION LINES; AFTERBAY AND DIVERSION WEIR; IRRIGATION AND DRAINAGE FACILITIES FOR 45,000 HA. IN SOUTH KEDU PLAIN; FLOOD CONTROL AND OTHER INFRASTRUCTURE FACILITIES AS REQUIRED. RESERVOIR YIELDING 15 CUBIC METERS OF FLOW/SECOND WOULD PERMIT ANNUAL CROPPING INTENSITY OF 2.4 (DOUBLE-CROPPED RICE PLUS SOME DRY SEASON CASH CROPS). PRELIMINARY COST ESTIMATE OF ENTIRE PROPOSED PROJECT IS ABOUT \$73 MILLION EQUIV. (1975 COSTS) OF WHICH FOREX COMPONENT WOULD BE IN \$35 MILLION RANGE.

10. STUDY, TO BE PERFORMED IN 2 STAGES BY SINGLE FIRM OF CONSULTANTS TO BE SELECTED IN ACCORD BANK GUIDELINES, WOULD FIRST BE COMPRISED OF COMPREHENSIVE FEASIBILITY STUDY INCLUDING TECHNICAL, ECONOMIC, AND INSTITUTIONAL ASPECTS. DEPENDENT ON OUTCOME OF STUDY AND IF FOUND FEASIBLE, CONSULTANTS WOULD THEN PREPARE DETAILED DESIGNS, SPECS AND TENDER DOCS. STAGE I FEASIBILITY STUDY TO BE DONE I INDONESIA EXPECTED TO REQUIRE 12 MONTHS; 21
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EXPATRIATE SPECIALISTS FOR TOTAL OF 135 MAN/MONTHS. DURING FINAL PORTION OF FEASIBILITY STUDY AND AFTER COMPLETION, BANK AND GOVT WOULD CONDUCT INTENSIVE REVIEW TO DECIDE WHETHER PROCEED WITH ALL OR PORTION OF PROPOSED PROJECT COMPONENTS IN STAGE II.

11. STAGE II, DETAILED DESIGNS AND TENDER DOCS, WOULD BE GROUPED INTO TWO APPROPRIATE PACKAGES TO FACILITATE PARTICIPATION OF DGWRD STAFF IN COMPONENTS WHERE THEY ALREADY HAVE EXPERIENCE, AND TO PROVIDE PACKAGES SUITABLE FOR INTERNATIONAL BIDDING UNDER BANK GUIDELINES.

12. STAGE II A (DAM A D POWER PLANT, AFTERBAY WEIR, TRANSMISSION LINE) WOULD INCLUDE DETAILED DESIGNS, COST ESTIMATES, CONSTRUCTION SCHEDULE AND PRE-QUALIFICATION DOCS; WORK TO BE LARGELY PERFORMED BY EXPATRIATES (15 PERSONS FOR 131 MAN/MONTHS) ASSISTED BY COUNTERPARTS.

13. STAGE II B, IRRIGATION, DRAINAGE AND FLOOD CONTROL WORKS TO BE LARGELY SUPERVISION AND ASSISTANCE OF COUNTERPART STAFF, REQUIRING EIGHT EXPATRIATES FOR 74 MAN/MONTHS TO COMPLETE.

14. WHILE DGWRD WILL SUPPLY SOME EQUIPMENT FROM OWN RESOURCES, SIGNIFICANT PORTION OF TA IS PROPOSED TO BE ALLOCATED FOR PROVISION OF JEEPS, UTILITY TRUCKS, DRILL RIGS, LABORATORY, SURVEY, SCIENTIFIC AND OFFICE EQUIPMENT. CONSULTANT TO ASSIST IN THIS PROCUREMENT IMMEDIATELY UPON SELECTION.

15. CONSULTANT TO PROVIDE EXPERTS IN APPROPRIATE DISCIPLINES QUALIFIED TO PERFORM FEASIBILITY STUDY EMBRACING SUCH ASPECTS AS IRRIGATION AND DRAINAGE: CROPPING PATTERNS; FLOOD CONTROL MEASURES; ELECTRIC POWER; DOMESTIC AND MUNICIPAL WATER SUPPLY; SALINITY EXCLUSION; RESERVOIR FISHERY POTENTIAL AND WATERSHED MANAGEMENT INCLUDING ALL SOCIO-ECONOMIC CONSIDERATIONS; ALSO DETAILED DESIGN AND TENDER DOCUMENT PREPARATION.

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16. FOREX PORTION OF \$3 MILLION GRANT AND LOAN PROCEEDS TO BE ALLOCATED \$2,225,000 FOR CONSULTANT REMUNERATION, TRAVEL AND RELATED EXPENSES; EQUIPMENT COSTS \$248,000; \$76,000 FOR TRAINING OF DGWRD STAFF AND 20 PER CENT CONTINGENCY OF \$451,000. GOVT CONTRIBUTION INCLUDES ALL LOCAL CURRENCY (LC) COSTS EQUIV. TO \$1,610,000 FOR STAGE I FEASIBILITY STUDY AND \$790,000 FOR STAGE II, FOR AGGREGATE LC COST OF \$2,400,000 EQUIV.

17. ON BASIS TA INCLUSION FEASIBILITY STUDIES AND BANK PRACTICE GRANT-FINANCE SUCH STUDIES, ADB PROPOSES PROVIDE TA GRANT OF \$100,000; REMAINING \$2.9 MILLION FOREX TA COSTS TO BE FINANCED BY TA LOAN WITH 10 YR AMORTIZATION; 2 YR GRACE PERIOD. IF CAPITAL LOAN PROJECT RESULTS FROM TA, THEN TA LOAN AMOUNT WOULD BE INCORPORATED INTO SUCH LOAN UNDER SAME TERMS AND CONDITIONS OF THAT LOAN. HOWEVER, PROPOSED TA LOAN DOES NOT COMMIT BANK TO FUTURE CAPITAL FINANCING.

18. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION. REQUEST U.S. MISSION JAKARTA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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